

Pensions Board

22 October 2019

Report title	Annual Report and Accounts 2018/19	
Originating service	Pension Services	
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Recommendations for noting:

The Board is asked to note:

1. The Statement of Accounts for West Midlands Pension Fund (WMPF) for the year ending 31 March 2019 was audited and completed by 31 July 2019.
2. The draft Annual Report for WMPF was considered by Pensions Committee on 25 September and is now subject to audit by the Fund's external auditors, Grant Thornton.
3. The accounts for the West Midlands Integrated Transport Authority (ITA) for the year ending 31 March 2019 were audited and completed on 31 July 2019.

1.0 Purpose

- 1.1 The purpose of this report is to update the Board on the preparation, approval and audit of the Statement of Accounts and the Annual Report for the year ending 31 March 2019 and the latter's publication on the Fund's website.

2.0 Background

- 2.1 Local Government Pension Scheme (LGPS) funds are required by law to produce a Statement of Accounts and an Annual Report. These must be subject to external audit and published no later than 31 July (accounts) and 1 December (Annual report) respectively.
- 2.2 In preparing their Annual Report and accounts, funds must have regard to proper practice and to any guidance which has the effective standing of 'statutory guidance'. These are:
- for the Statement of Accounts, 'The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19' (CIPFA) ('the Code');
 - for the Annual Report, 'Preparing the Annual Report: Guidance for Local Government Pension Scheme Funds' (CIPFA).
- 2.3 As well as being published in the Fund's own Annual Report, its accounts must be included in the Statement of Accounts of the Administering Authority (in this case, the City of Wolverhampton Council or West Midlands Combined Authority). It is important to note that the transactions and balances of the Funds are completely separate and not combined with those of the respective Administering Authority.
- 2.4 The draft accounts are required to be certified by the Section 151 Officer on or before 31 May following the year end. The certification was given by the City of Wolverhampton Council's Director of Finance on 31 May 2019 and by the Combined Authority's Finance Director on 20 May 2019.

3.0 Accounts Closure and Preparation of the Annual Report

- 3.1 Despite challenging deadlines and a number of conflicting pressures, the Fund has succeeded in preparing its draft statement of accounts within the statutory deadline. This is due to careful planning, resource management and close monitoring.
- 3.2 A combined Annual Report has been prepared which contains the report and accounts for both West Midlands Pension Fund and the ITA Pension Fund in the same document.

4.0 Draft Annual Report 2018/19

4.1 The draft Annual Report will shortly be made available on the Fund's website. The Fund has prepared a single Annual Report that includes both the WMPF and the ITA Fund. The contents of the Annual Report are as follows:

- Introduction
- Management and Financial Performance
- Investment Policy and Performance
- Scheme Administration Report
- Actuarial Report
- Governance Arrangements
- Statement of Accounts
- Pensions Administration Strategy
- Funding Strategy Statement
- Investment Strategy Statement
- Communications Policy Statement
- Further Information

4.2 The Annual Report provides a thorough review of the Fund's activities during the year and notes particular successes including:

- Maintaining the cost of administration, oversight and governance per member within budget (£23.11 versus £25.76).
- Achieving a return on investments (WMPF) of 9.2% p.a. over the five years to 31 March 2019 compared to a benchmark return over the same period of 8.6% p.a.
- Transitioning a combination of £5.9bn worth of assets and cash to the regional investment pooling company, LGPS Central Limited, in line with the Government's Investment Pooling Guidance of 1 April 2018.
- Playing a key role through both the Local Authority Pension Fund Forum and the United Nations Principles for Responsible Investment (PRI) in advancing the responsible investment agenda.

5.0 Statement of Accounts 2018/19

5.1 The purpose of the Statement of Accounts is to report the Fund's financial performance for the year and its balances and reserves as at the year end. There are two primary statements; the Fund Account, which is concerned with transactions during the year and, the Net Assets Statement, which reports balances at the year end. These statements are supplemented by a series of notes to the accounts which expand on items in the primary statements or provide further information about the Fund.

5.2 During 2018/19, the WMPF grew in value by £294 million. The reasons for this were:

	Increase/(Decrease) in Fund £m
Net gains in the value of investments	445
Investment income receivable	237
Bulk transfer into the Fund	14
Sub-total net increases	696
Net contributions receivable/benefits payable	(307)
Management expenses charged to the Fund	(87)
Net transfers of members out of the Fund	(8)
Sub-total net decreases	(402)
Total increase in the Fund value	294

5.3 It is worth noting that the balance of contributions and benefits is negative in 2018/19 – the £307 million shown in the table above – this is because most of the Council bodies had already paid three years Future Service and Past Service Deficit contributions in advance in the previous financial year and these were reported in the 2017/18 accounts. The balance between the two is likely to be negative again in 2019/20. The figure for contributions receivable also includes £24.2 million paid by employers to cover early retirement strain costs, reflecting the additional contributions received as a result of employer staffing decisions taken during the year.

5.4 Net assets of WMPF at 31 March 2019 stood at £15.7 billion up from £15.4 billion at 31 March 2018. This comprised investment assets of £15.6 billion and working balances of £139 million.

5.5 The Fund has taken the option under the Chartered Institute of Public Finance and Accountancy (CIPFA) code to disclose the present value of all Fund employer pension liabilities in a note to the accounts. This value, calculated on an IAS19 basis, stood at £22.5 billion at 31 March 2019. This is a slight increase on the 31 March 2018 figure of £22.1 billion primarily due to adjustments to the actuarial assumptions.

5.6 The ITA Fund decreased in value by £0.3 million. The reasons for this were:

	Increase/(Decrease) in Fund £m
Investment income	17.2
Net decrease in the value of investments	(0.4)
Sub-total net returns on investments	16.8
Net contributions receivable/benefits payable	(16.1)
Management expenses charged to the Fund	(1.0)
Sub-total net withdrawals & expenses	(17.1)
Total decrease in the Fund value	(0.3)

5.7 Benefits payable exceeded contributions receivable by a significant margin reflecting the greater maturity of the ITA Fund and the fact that it is a closed fund.

5.8 Net assets of the ITA Fund at 31 March 2019 stood at £491.7 million down slightly from £492 million at 31 March 2018. This comprised investment assets and annuity buy-in contract totalling £488 million and working balances of £3.7 million.

6.0 Financial implications

6.1 The financial implications are discussed in the body of the report.

7.0 Legal implications

7.1 The Statement of Accounts of the Administering Authority (of which the Fund's accounts form part) must be prepared in accordance with the statutory framework established by the Accounts and Audit Regulations 2015. The audit of the financial statements will be undertaken in accordance with the statutory framework established by sections 3 and 20 of the Local Audit and Accountability Act 2014.

8.0 Equalities implications

8.1 This report has no equalities implications.

9.0 Environmental implications

9.1 This report has no environmental implications.

10.0 Human resources implications

10.1 The report has no human resources implications.

11.0 Corporate landlord implications

11.1 This report has no corporate landlord implications.

12.0 Schedule of background papers

12.1 None

13.0 Schedule of appendices

13.1 None